



Property Casualty Insurers
Association of America
Shaping the Future of American Insurance

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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 6238 – AN ACT CONCERNING REPLACEMENT COST COVERAGE UNDER HOMEOWNERS INSURANCE AND COMMERCIAL RISK POLICIES.

COMMITTEE ON INSURANCE AND REAL ESTATE

February 1, 2011

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on H.B. 6238, which would define actual cash value for replacement cost coverage and prohibit the withholding of holdbacks by insurers. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI member companies provide 41 percent of Connecticut's property casualty coverage.

Replacement cost coverage provides an additional benefit beyond the depreciated actual cash value loss so that the insured is able to repair or replace the property. One of the basic principles of replacement cost coverage requires that the insured not receive the expanded indemnification provided under replacement cost coverage until the property is actually repaired and/or replaced. As a result, the insured first collects their depreciated or actual cash value loss, and when the property is repaired or replaced in accordance with the conditions of the policy, the insured is paid the difference between the actual cash value loss and the replacement cost loss. The money withheld is customarily referred to as a "holdback."

This bill would prohibit the insurer from withholding the payment in excess of the depreciated value in order to ensure that the property is rebuilt. This contradicts the premise upon which replacement cost coverage is based, which is to ensure that the homeowner is able to rebuild the property. Without a holdback, the insurer has no way to ensure that the property is rebuilt and the payment in excess of the depreciated value of the property simply becomes a windfall to the policyholder. Authorizing the provision of windfalls in connection with homeowners insurance would present moral hazard concerns and would not be beneficial. This would also likely result in increased premium costs for replacement cost coverage.

In addition to our concerns relative to the provisions prohibiting holdbacks, PCI is also concerned with the new subdivision b added by this bill and its requirement that insurers consider any reasonable cost values for a dwelling submitted to the insurer by the insured. We are concerned about what type of consideration would be required by the insurer and whether and to what extent the insurer would be required to take such values into account.